

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Mass Transportation Authority	County Genesee
Fiscal Year End September 30, 2006	Opinion Date January 29, 2007	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

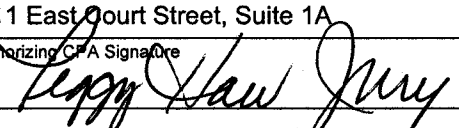
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Single Audit Report	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 810-767-5350	
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
Authorizing CPA Signature 		Printed Name Peggy Haw Jury	Zip 48502
		License Number 1101009025	

Financial Statements

**Mass Transportation Authority
1401 South Dort Highway
Flint, Michigan 48503**

September 30, 2006 and 2005

with Independent Auditors Report

Mass Transportation Authority
Governing Committee and Administration

September 30, 2006

Governing Committee

Chairman	Michael Zelle
Vice Chairman	John W. Northup
Secretary/Treasurer	Richard Abrams

Board Members:	Robert Allen
	Joe Conroy
	Richard Hammel
	Paul Luthenbacher
	Carolyn Sims

Administration

General Manager	Robert Foy
Assistant General Managers:	
Administration	Jerry Ragsdale
Operations	Terry Jurens
Services	Ed Benning

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Financial Section

Independent Auditors' Report

Board of Directors
Mass Transportation Authority
1401 South Dort Highway
Flint, Michigan 48503

We have audited the accompanying financial statements of the Mass Transportation Authority (MTA) Enterprise fund and the aggregate pension fund information, as of and for the years ended September 30, 2006 and 2005, which collectively comprise the MTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mass Transportation Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and governmental auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mass Transportation Authority at September 30, 2006 and 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 29, 2007 on our consideration of Mass Transportation Authority's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements. The fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The other accompanying financial information, listed as schedules in the table of contents, is also presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Mass Transportation Authority. The information in the schedule of expenditures of federal awards and Schedules I through VI have been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The information in Schedule VII has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, accordingly, we express no opinion on it.

Plante & Moran, PLLC

January 29, 2007

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Mass Transportation Authority ("Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended September 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Overview of Financial Highlights

- The Authority has net assets of \$41.3 million at fiscal year end 2006. These net assets result from the difference between total assets of \$51.0 million and total liabilities of \$9.5 million.
- Current assets of \$9.7 million primarily consist of non-restricted cash and investments of \$1.5 million; government receivables of \$7.0 million; and inventory of \$.8 million.
- Current liabilities of \$8.6 million primarily consist of government payables of \$2.6 million; accounts and construction payables of \$3.1 million; accrued compensation of \$.7 million; line of credit of \$2 million, and other payables of \$.2 million.

Basic Financial Statements and Presentation

The basic financial statements presented by the Authority are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

The Balance Sheet presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities results in increased net assets, which indicate improved financial position.

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the Authority's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses. In addition, this statement lists capital grant revenues received from federal, state and local governments.

The Statement of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Authority

Condensed Summary of Net Assets

The Authority issued comparative financial statements in 2006.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 9,722,688	\$ 5,391,621	\$ 5,014,779
Capital assets (net of accumulated depreciation)	41,079,840	35,282,191	39,456,749
Total assets	<u>\$50,802,528</u>	<u>\$40,673,812</u>	<u>\$44,471,528</u>
Current liabilities	\$ 8,694,102	\$ 4,492,454	\$ 5,821,633
Non-current liabilities	804,990	643,137	846,092
Total liabilities	<u>\$ 9,499,092</u>	<u>\$ 5,135,591</u>	<u>\$ 6,667,725</u>
Net assets:			
Invested in capital assets	\$41,079,840	\$35,249,444	\$39,456,749
Restricted	60,000	118,687	31,780
Unrestricted	163,596	170,090	(1,684,725)
Total net assets	<u>\$41,303,436</u>	<u>\$35,538,221</u>	<u>\$37,803,804</u>

The largest portion of the Authority's net assets reflects investment in capital assets consisting of buses and operating facilities. The Authority uses these capital assets to provide public transportation services for the Genesee County area. During the current year the Authority utilized dedicated tax revenues of \$1,024,199 to purchase capital assets.

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues (expenses)			
Operating revenues	\$ 2,944,347	\$ 2,788,869	\$ 2,616,199
Operating expenses, excluding depreciation	(23,352,298)	(23,119,280)	(19,896,775)
Depreciation expense	(5,169,180)	(5,633,353)	(5,934,004)
Operating loss	<u>(25,577,131)</u>	<u>(25,963,764)</u>	<u>(23,214,580)</u>
Non-operating revenues (expenses)			
Property tax revenues	9,357,007	8,878,619	4,804,480
State grants and reimbursements	7,252,506	7,937,038	8,121,227
Federal grants and reimbursements	4,902,542	5,437,524	4,184,649
(Loss) gain on sale of capital asset	(3,756)	(4,011)	57,083
Investment income	35,997	18,958	3,994
Total non-operating revenues	<u>21,544,296</u>	<u>22,268,128</u>	<u>17,171,433</u>
Capital grant revenue	<u>9,798,050</u>	<u>1,430,053</u>	<u>6,129,781</u>
Increase (decrease) in net assets during the year	5,765,215	(2,265,583)	86,634
Net assets, beginning of year	<u>35,538,221</u>	<u>37,803,804</u>	<u>37,717,170</u>
Net assets, end of year	<u>\$ 41,303,436</u>	<u>\$ 35,538,221</u>	<u>\$37,803,804</u>

Capital Assets

Capital Assets

The Authority's investment in capital assets as of September 30, 2006 amounts to \$41.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, construction in progress, leasehold improvements, revenue equipment, maintenance and garage equipment, service cars and furniture and fixtures. The increase in furniture and fixtures was the result of the use of local funds for the purchase of a training simulator for drivers. Additional information on the Authority's capital assets can be found in Note 3 on page 22 of this report.

	<u>2006</u>	<u>2005</u>
Land	\$ 2,423,950	\$ 1,909,705
Construction in progress	5,361,613	4,416,474
Buildings	23,048,221	20,825,587
Leasehold improvements	26,820	29,374
Revenue equipment	8,432,460	7,429,290
Maintenance and garage equipment	78,166	117,103
Service cars	27,296	48,320
Furniture and fixtures	1,681,314	468,911
Capital asset under lease	-	37,427
Total	<u>\$ 41,079,840</u>	<u>\$ 35,282,191</u>

Para Transit Centers

The Authority is making a significant investment for the construction of local Para Transit Centers over a three-year period. These centers are designed to improve customer service by offering our riders convenient local facilities. Comfortable waiting areas and time-coordinated service will make it more convenient for riders to secure transportation. These facilities will also serve as vehicle fueling and storage units, furthering the efficiency of operations.

Capital Operating Expenses and Other Expenses

Capital operating expenses for fiscal 2006 were \$4.7 million compared to \$3.8 million for fiscal 2005.

These operating costs are budgeted and are reimbursable by the Federal and State governments.

Financial Operating Results

Revenues

Operating revenues are summarized into the following categories:

Passenger Fares – Farebox receipts and special transit fares are included here.

Advertising and Concessions – Fees derived from the contractual agreement to have advertisements on the buses are included here. This category also summarizes various rental activities of the MTA. This includes the rental of a radio tower, and other facilities.

Property Tax – This dedicated .8 mill tax is levied in Genesee County, and an additional .6 mill is levied in the City of Flint. For 2006 and 2005, approximately 9% of the Authority’s revenues used for operations came from the county-wide tax and 25% from the City of Flint.

Federal Grants and Reimbursements – The Authority utilized \$3.2 million in Section 5307 capital funds to reimburse the costs of preventive maintenance and certain inventory purchases. Other specific grants are awarded as incentives to expand and enhance services to select clients, or to achieve other operational goals.

State Operating Grants – The Michigan Department of Transportation allocates grants for operating assistance based on expenses submitted by all Michigan transit agencies. This assistance cannot amount to less than what was allocated in 1997. The MTA is currently at this 1997 funding amount, which is referred to as the “Floor”. Other specific grants are awarded as incentives to expand and enhance services to select clients.

Expenses

Labor and Fringe Benefits – These personnel costs accounted for approximately 68% and 69% of all the Authority operating expenses (excluding depreciation) in 2006 and 2005, respectively. This proportion is consistent with past years’ experiences.

Services – This account consists of legal fees, auditor’s fees, and office equipment maintenance services.

Materials and Supplies – Fuel and fluids for all vehicles, in addition to the parts to maintain and repair the fleet account for the majority of this classification. Office and general maintenance supplies account for the remaining.

Insurance – The MTA is partially self-insured; therefore this account represents both the direct payments to claimants as well as premiums due for excess coverage. In addition, the MTA is required to accumulate a fund balance to support its self-insurance program. The cost of excess coverage has greatly increased in this area, causing the MTA to restructure coverage, and assume additional exposure.

Economic Factors and Deficit Elimination Plan in Process

In the years 2001 and prior the Mass Transportation Authority had accumulated an operating deficit of \$4.1 million. These deficits were primarily the results of changes in Federal and State operating assistance over this period. The Mass Transportation Authority established the elimination of the deficit as a primary goal for the period through FY 2005. This goal was met during fiscal 2005.

The City of Flint is going through a period of transition. As manufacturing jobs are being lost in the City, the tax base finds it difficult to maintain the current level of services. At the same time good paying job opportunities have developed in counties surrounding Genesee County, therefore the need for regional transportation has become evident.

In the county, the property values are extremely reasonable when compared to the surrounding area. This has created an influx of home ownership in Genesee County where the resident works in one of the surrounding counties. The number of housing complexes that cater to the elderly is increasing significantly. Both of these factors have led to increased ridership in the out-county. The increase in gas prices to be paid by individuals in fiscal 2005 and 2006 also fostered an increase in ridership.

The expansion of the national economy has not generated adequate revenues to meet Federal budget needs. Similarly at the State level, budget deficits are having an impact on the ability to fund transportation programs at previous levels. Both of these factors are the impetus for the Mass Transportation Authority to expand its local financial commitment.

In addition to an expanded local financial participation, it is essential that public service organizations partner with each other to eliminate the duplication of transportation services. The Mass Transportation Authority is in the process of partnering with other organizations in an effort to expand our customer base. An expanded customer base will be necessary to maintain the present level of services as State and Federal subsidies are reduced.

The combination of these factors will lead to MTA efforts to expand our customer base in the City of Flint, provide additional services in the out-county areas and increase the local financial participation of the local communities.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to Robert J. Foy, General Manager, Mass Transportation Authority, 1401 S. Dort Highway, Flint, Michigan 48503.

Basic Financial Statements

**Mass Transportation Authority
Balance Sheets
September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash	\$ 545,107	\$ 964,189
Investments	972,050	1,085,052
Accounts receivable	106,439	93,370
Due from federal government	4,554,654	226,106
Due from state government	1,962,531	1,595,098
Due from local government	493,094	452,900
Inventories	848,411	760,483
Prepaid expenses	240,402	214,423
	<u>9,722,688</u>	<u>5,391,621</u>
Total current assets		
Capital assets:		
Land	2,423,950	1,909,705
Construction in progress	5,361,613	701,662
Buildings	37,482,588	37,458,316
Leasehold improvement	50,518	50,518
Revenue equipment	45,443,935	41,286,931
Maintenance and garage equipment	1,054,842	1,054,842
Service vehicles	382,438	382,438
Furniture and fixtures	5,309,826	3,745,906
Capital asset under lease	-	84,207
	<u>97,509,710</u>	<u>86,674,525</u>
Total capital assets		
Less accumulated depreciation	(56,429,870)	(51,392,334)
	<u>41,079,840</u>	<u>35,282,191</u>
Capital assets - net		
	<u>\$ 50,802,528</u>	<u>\$ 40,673,812</u>
Total assets		

See notes to financial statements.

	2006	2005
Liabilities and Net Assets		
Current liabilities:		
Due to other funds	\$ 92,606	\$ 98,235
Due to state government	2,619,019	550,018
Accounts payable	904,793	876,487
Construction payables	2,238,968	-
Current portion of self insurance liabilities	121,272	349,868
Accrued salaries and wages	334,793	257,492
Compensated absences	382,651	327,607
Line of credit	2,000,000	2,000,000
Capital lease payable	-	32,747
Total current liabilities	8,694,102	4,492,454
Non-current liabilities:		
Accounts payable	-	13,349
Self insurance liabilities	804,990	629,788
Total non-current liabilities	804,990	643,137
Total liabilities	9,499,092	5,135,591
Net assets:		
Invested in capital assets	41,079,840	35,249,444
Restricted for:		
Self Insurance	60,000	118,686
Unrestricted	163,596	170,091
Total net assets	41,303,436	35,538,221
Total liabilities and net assets	\$ 50,802,528	\$ 40,673,812

Mass Transportation Authority
Statements of Revenues, Expenses, and Changes in Net Asset
For the Years Ended September 30, 2006 and 2005

	2006	2005
Operating revenues:		
Passenger fares	\$ 2,679,729	\$ 2,502,400
Advertising and concessions	264,618	286,469
Total operating revenues	<u>2,944,347</u>	<u>2,788,869</u>
Operating expenses:		
Labor	10,359,960	10,103,755
Fringe benefits	5,508,701	5,901,324
Services	1,224,923	1,292,153
Materials and supplies	4,208,464	3,715,811
Utilities	707,100	604,666
Insurance	692,505	704,092
Taxes and fees	1,627	257
Miscellaneous	257,748	540,653
Interest expense	101,338	107,268
Leases and rentals	104,070	149,301
Bad debt expense	185,862	-
Total operating expenses excluding depreciation	<u>23,352,298</u>	<u>23,119,280</u>
Operating loss before depreciation expense	(20,407,951)	(20,330,411)
Depreciation expense	5,169,180	5,633,353
Operating loss	<u>(25,577,131)</u>	<u>(25,963,764)</u>
Non-operating revenues:		
Property tax revenue	9,357,007	8,878,619
State of Michigan operating grants:		
Urban operating assistance	5,109,089	5,109,089
Non-urban operating assistance	375,289	304,808
Project Zero	-	380,628
Job Access	1,190,946	1,526,738
Preventative maintenance grants	360,000	-
Capital grants used for operations	116,890	259,764
Amtrack marketing	106	85,664
Federal security/emergency management	-	10,841
Specialized services	269,362	259,506
Prior year operating assistance settlement (2000 - 2004)	(169,176)	-
Federal operating grants:		
Job Access/Reverse Commute	662,826	1,526,738
Section 5311 operating assistance	162,527	81,167
Preventative maintenance grants	3,211,170	2,400,000
Capital grants used for operations	1,008,837	1,148,311
FTA Section 8 - Ridership study	20,400	53,137
Federal security/emergency management	76,782	228,171
Prior year capital grant repayments	(240,000)	-
Loss on sale of capital asset	(3,756)	(4,011)
Interest income	35,997	18,958
Total non-operating revenues	<u>21,544,296</u>	<u>22,268,128</u>
Net loss before capital grant revenue	(4,032,835)	(3,695,636)
Capital grant revenue:		
Federal	7,838,440	1,144,042
State	1,959,610	286,011
Total capital grant revenue	<u>9,798,050</u>	<u>1,430,053</u>
Increase (decrease) in net assets	5,765,215	(2,265,583)
Net assets, beginning of the year	35,538,221	37,803,804
Net assets, end of the year	<u><u>\$ 41,303,436</u></u>	<u><u>\$ 35,538,221</u></u>

See notes to financial statements.

Mass Transportation Authority
Statements of Cash Flow:
For the Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Cash received from customers	\$ 2,931,278	\$ 2,847,589
Cash payments to suppliers for goods and services	(7,635,981)	(7,619,810)
Cash payments to employees for service	(15,736,316)	(16,269,432)
Net cash used in operating activities	<u>(20,441,019)</u>	<u>(21,041,653)</u>
Cash flows from capital and related financing activities		
Principal payments on capital lease	(32,747)	(51,460)
Cash received from capital grants	8,639,138	5,852,518
Additions to property and equipment	(8,731,617)	(1,378,599)
Net cash (used in) provided by capital and related financing activities	<u>(125,226)</u>	<u>4,422,459</u>
Cash flows from non-capital financing activities:		
Cash received from operating federal grants	967,801	1,889,213
Cash received from operating state grants	9,719,179	6,732,114
Cash received from taxes	9,316,813	8,881,701
Retiree benefits paid from reserve proceeds	(5,629)	(5,629)
Net cash provided by non-capital financing activities	<u>19,998,164</u>	<u>17,497,399</u>
Cash flows from investing activities		
Investment income	35,997	18,958
Sale of investments	299,000	25,000
Purchase of investments	(185,998)	(271,768)
Net cash (used in) provided by investing activities	<u>148,999</u>	<u>(227,810)</u>
Net increase (decrease) in cash	(419,082)	650,395
Cash at beginning of year	964,189	313,794
Cash at end of year	<u><u>\$ 545,107</u></u>	<u><u>\$ 964,189</u></u>

See notes to financial statements.

(continued)

Mass Transportation Authority
Statements of Cash Flows (continued)
For the Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	<u>\$ (25,577,131)</u>	<u>\$ (25,963,764)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	5,169,180	5,633,353
Changes in operating assets and liabilities:		
Accounts receivable	(13,069)	58,720
Inventories	(87,928)	(154,400)
Prepaid expenses	(25,979)	(1,471)
Accounts payable and self insurance liabilities	(38,437)	(349,738)
Accrued salaries and wages and compensated absences	<u>132,345</u>	<u>(264,353)</u>
Total adjustments	<u>5,136,112</u>	<u>4,922,111</u>
Net cash used in operating activities:	<u><u>\$ (20,441,019)</u></u>	<u><u>\$ (21,041,653)</u></u>
Noncash investing, capital and financing activities		
Capital asset was purchased with a capital lease	\$ -	\$ 84,207
Increase in construction in progress through contractor and retainage payable	<u>(2,238,968)</u>	<u>-</u>
Interest paid	<u><u>\$ 101,338</u></u>	<u><u>\$ 107,268</u></u>

See notes to financial statements.

Fund Financial Statements

**Mass Transportation Authority
Pension Trust Funds
Combining Statements of Net Assets
September 30, 2006 and 2005**

	2006		
	Pension Trust		Totals
	Hourly Plan	Management Plan	
Assets			
Cash value of insurance policies	\$ -	\$ -	\$ -
Investments	3,231,447	2,508,122	5,739,569
Due from other funds	-	92,606	92,606
Total assets	<u>\$ 3,231,447</u>	<u>\$ 2,600,728</u>	<u>\$ 5,832,175</u>
Net Assets			
Held in trust for pension benefits	\$ 3,231,447	\$ 2,564,473	\$ 5,795,920
Held in trust	-	36,255	36,255
Total net assets	<u>\$ 3,231,447</u>	<u>\$ 2,600,728</u>	<u>\$ 5,832,175</u>

See notes to financial statements.

2005		
Pension Trust		
Hourly Plan	Management Plan	Totals
\$ -	\$ -	\$ -
3,074,673	2,113,747	5,188,420
-	98,235	98,235
\$ 3,074,673	\$ 2,211,982	\$ 5,286,655

\$ 3,074,673	\$ 2,170,098	\$ 5,244,771
-	41,884	41,884
\$ 3,074,673	\$ 2,211,982	\$ 5,286,655

**Mass Transportation Authority
Pension Trust Fund
Combining Statements of Changes in Fiduciary Net Asset
For the Years Ended September 30, 2006 and 2005**

		Pension Trust		
		Hourly Plan	Management Plan	Totals
Additions:				
Contributions		\$ 359,474	\$ 269,807	\$ 629,281
Investment income		146,371	159,429	305,800
Total additions		505,845	429,236	935,081
Deductions:				
Participant distributions		349,071	40,490	389,561
Total deductions		349,071	40,490	389,561
Change in net assets		156,774	388,746	545,520
Net assets, beginning of year		3,074,673	2,211,982	5,286,655
Net assets, end of year		\$ 3,231,447	\$ 2,600,728	\$ 5,832,175

See notes to financial statements.

Pension Trust		
Hourly Plan	Management Plan	Totals
\$ 294,370	\$ 278,952	\$ 573,322
141,966	242,143	384,109
436,336	521,095	957,431
200,736	236,266	437,002
200,736	236,266	437,002
235,600	284,829	520,429
2,839,073	1,927,153	4,766,226
\$ 3,074,673	\$ 2,211,982	\$ 5,286,655

Notes to Financial Statements

Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005

1. Summary of significant accounting policies

The accounting policies of MTA conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

A. Reporting entity

The Mass Transportation Authority (MTA) was incorporated September 27, 1971, under the provisions of the Mass Transportation System Authorities Act, Act 55 of the Public Acts of Michigan of 1963. The Authority provides public transportation to the general public in the City of Flint and Genesee County area. The Authority is managed by a governing committee consisting of the City administrator of the City of Flint, or his or her designee; Ten United States citizens including the following: Chairperson of Genesee County Board of Commissioners, or another County Commissioner designated by the Chairperson; Representative of Genesee County Chapter of the Michigan Township Association; Representative of Genesee County Chapter of Small Cities and Villages Association; Representative of the education community designated by Flint Schools Superintendent; President of the Flint City Council or his or her designee; County Commissioner selected by the Genesee County Board of Commissioners; Two Flint residents appointed by the Mayor with concurrence of the Flint City Council; One Flint resident appointed by the Flint City Council; One Genesee County resident appointed by the Genesee County Board of Commissioners. The respective representatives of the Township Association and the Small Cities and Villages Association shall be selected, from among at least three persons nominated by the Association, by the Board of County Commissioners.

The Authority is not subject to federal or state income taxes.

Component units:

“The Financial Reporting Entity”, as defined by Statement No. 14 of the Governmental Accounting Standards Board (GASB), is comprised of the primary government and its component units. The primary government includes all departments and operations of the MTA which are not legally separate organizations. Component units are legally separate organizations which are fiscally dependent on MTA or for which MTA is financially accountable. An organization is fiscally dependent if it must receive MTA’s approval for its budget, the levying of taxes or the issuance of debt. MTA is financially accountable for an organization if it appoints a majority of the organization’s board, and either a) has the ability to impose its will on the organization or b) there is the potential for the organization to provide a financial benefit to or impose a financial burden on the Authority. The reporting entity of MTA consists solely of the primary government. There are no component units.

Under the guidelines of GASB Statement No. 14, MTA is a jointly governed organization as detailed above. None of the participating governments appoints a majority of MTA’s board and none has an ongoing financial interest or responsibility. None of the participating governments provided any support or had any significant financial transactions with MTA during fiscal 2006.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005**

1. Summary of significant accounting policies – (continued)

B. Basis of accounting

The accounts of MTA, which are organized as an enterprise fund, are used to account for MTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the MTA maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Non-exchange transactions, in which MTA receives value without directly giving equal value in return, include property tax revenue and grants. On an accrual basis, revenue from property taxes is recognized in the current fiscal year. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to MTA on a reimbursement basis.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. MTA also has the option of following subsequent private-sector guidance, subject to this same limitation. MTA has elected not to follow subsequent private-sector guidance as it relates to its operations.

C. Cash investments, annuities, and insurance policies

Investments are stated at cost which approximates market. Annuities and insurance policies related to the deferred compensation and pension plans are stated at cash surrender value. For purposes of the cash flows statement, all highly liquid short-term investments with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents.

D. Inventories

Inventory consists of maintenance parts, repair parts, operating and office supplies, and fuel used in the operation of the transit system. Inventories are recorded at average cost. In accordance with industry practice, all inventories are classified as current assets even though a portion of the inventories are not expected to be utilized within one year.

E. Prepaid expenses

Prepaid expenses are payments made to vendors for services that will benefit periods beyond September 30, 2006 and 2005.

F. Accounts receivable

No allowance for bad debts is included in the financial statements as MTA considers all receivables collectible.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005**

1. Summary of significant accounting policies – (continued)

G. Capital assets

MTA defines capital assets as assets with an initial cost of at least \$5,000 and a useful life of more than one year. Capital assets are stated at cost or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Provisions for depreciation of building, improvements, and equipment are computed on the straight-line method. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-30 years	Maintenance and garage equipment	5-10 years
Building improvements	10-30 years	Service cars	3-6 years
Revenue equipment	4-12 years	Furniture and fixtures	4-10 years

H. Cost allocation plan

The Mass Transportation Authority has three cost allocation plans approved by the Bus Transit Division of the Michigan Department of Transportation for maintenance, the non-urban grant and for charter rates. These plans have been adhered to in the preparation of the financial statements.

I. Net assets – Equity displayed in three components

Invested in capital assets, net of related debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is MTA's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

J. Classifications of revenues

MTA has classified its revenues as either operating or non-operating. Operating revenue includes activities that have the characteristics of exchange transactions including passenger fares, advertising, and rental revenue. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as property tax proceeds and most federal, state, and local grants and contracts.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005**

1. Summary of significant accounting policies – (continued)

K. Recognition of revenue and receivables

The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provide financial assistance and make grants directly to the Authority for operations and acquisition of property and equipment. Operating grants and special fare assistance awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement periods. Capital grants for the acquisition of property and equipment (reimbursement type grants) are recorded as grant receivables and credited to non-operating revenues when the related capital expenditures are incurred. Capital grants for the maintenance of property, plant, and equipment are recorded as grant receivables and credited to non-operating revenues in the period operating expenditures are incurred.

L. Federal and State operating and preventive maintenance assistance funds

Federal and State operating and preventive maintenance assistance funds to be received by MTA under the Urban Mass Transportation Act of 1964, as amended, and under the Michigan Public Mass Transportation Grant Program are recorded and reflected as income in the period to which they are applicable.

M. Self-insurance liabilities and expense

MTA has a self-insurance program for general liability, property damage claims, and the workers' compensation claims.

Claims are accrued in the year the expenses are incurred, based upon the estimates of the claim liabilities made by management, legal counsel of MTA, and actuaries. Also provided for are estimates of claims incurred during the year but not yet reported.

Claims expense is accrued in the period the incidents of loss occur, based upon estimates of liability made by management with the assistance of third-party administration, legal counsel, and actuaries. Claims liability is the best estimate based on known information.

N. Passenger fares:

Passenger fares are recorded as revenue at the time services are performed.

O. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Reclassification:

Certain amounts in the 2005 financial statements have been reclassified to conform with the 2006 presentation.

Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005

2. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles.

Effective March 8, 1999, the Authority adopted an investment policy. Funds of the Mass Transportation Authority will be invested in accordance with the Michigan Constitution and Public Act 55 of 1963 and Public Act 196 of 1997, in accordance with the following objectives, safety of principle, diversification, liquidity, and return of investment. In accordance with Michigan Public Act 55 of 1963 and Public Act 196 of 1997, the surplus funds of the Authority may be invested as follows:

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, commercial paper, repurchase agreements, Bankers' acceptances of United States banks, Mutual funds, investment pools organized under the surplus funds investment pool act, 1982 PA 367, and investment pools organized under the local government investment pool act, 1985 PA 121.

Management's responsibility for the investment program is delegated to the "Investment Officer". The governing board of the Flint Mass Transportation Authority has designated the General Manager or the Finance Director as "Investment Officer".

The Authority maintains a list of eligible financial institutions authorized to provide investment services and a list of approved security broker/dealers selected by creditworthiness who are authorized and eligible to provide investment services in Michigan. No public deposit shall be made except in an eligible qualified institution. The Authority has designated two banks for the deposit of its funds.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At September 30, 2006 and 2005, the Authority had \$589,373 and \$1,132,468, respectively, of bank deposits (checking accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005

2. Deposits and investments – (continued)

Credit risk of investments:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy places no further limits on its investment choices. The Authority has invested in unrated money market funds of \$972,050 and \$1,085,420 as of September 30, 2006 and 2005, respectively; however, the Authority's investment policy does require a thorough investigation of the fund prior to investing and on a continual basis.

3. Capital assets

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,895,925	\$ 13,780	\$ -	\$ 1,909,705
Construction in progress	3,548,064	868,410	(3,714,812)	701,662
Total capital assets, not being depreciated	5,443,989	882,190	(3,714,812)	2,611,367
Capital assets, being depreciated:				
Buildings	33,743,504	-	3,714,812	37,458,316
Leasehold improvements	50,518	-	-	50,518
Revenue equipment	41,261,974	181,167	(156,210)	41,286,931
Maintenance and garage equipment	1,024,073	30,769	-	1,054,842
Service cars	292,474	63,073	26,891	382,438
Furniture and fixtures	3,525,402	221,400	(896)	3,745,906
Capital assets under lease	-	84,207	-	84,207
Total capital assets, being depreciated	79,897,945	580,616	3,584,597	84,063,158
Less accumulated depreciation:				
Buildings	11,449,111	1,468,806	-	12,917,917
Leasehold improvements	18,589	2,555	-	21,144
Revenue equipment	30,136,522	3,873,318	(152,199)	33,857,641
Maintenance and garage equipment	891,764	45,975	-	937,739
Service cars	288,240	18,987	26,891	334,118
Furniture and fixtures	3,100,959	176,932	(896)	3,276,995
Capital asset under lease	-	46,780	-	46,780
Total accumulated depreciation	45,885,185	5,633,353	(126,204)	51,392,334
Total capital assets, being depreciated, net	34,012,760	(5,052,737)	3,710,801	32,670,824
Total capital assets, net	\$39,456,749	\$(4,170,547)	\$ (4,011)	\$35,282,191

Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005

3. Capital assets – (continued)

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,909,705	\$ 514,245	\$ -	\$ 2,423,950
Construction in progress	701,662	4,684,223	(24,272)	5,361,613
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, not being depreciated	2,611,367	5,198,468	(24,272)	7,785,563
	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, being depreciated:				
Buildings	37,458,316	-	24,272	37,482,588
Leasehold improvements	50,518	-	-	50,518
Revenue equipment	41,286,931	4,292,404	(135,400)	45,443,935
Maintenance and garage equipment	1,054,842	-	-	1,054,842
Service cars	382,438	-	-	382,438
Furniture and fixtures	3,745,906	1,479,713	84,207	5,309,826
Capital assets under lease	84,207	-	(84,207)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, being depreciated	84,063,158	5,772,117	(111,128)	89,724,147
	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation:				
Buildings	12,917,917	1,516,450	-	14,434,367
Leasehold improvements	21,144	2,554	-	23,698
Revenue equipment	33,857,641	3,285,478	(131,644)	37,011,475
Maintenance and garage equipment	937,739	38,937	-	976,676
Service cars	334,118	21,024	-	355,142
Furniture and fixtures	3,276,995	304,737	46,780	3,628,512
Capital asset under lease	46,780	-	(46,780)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	51,392,334	5,169,180	(131,644)	56,429,870
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, being depreciated, net	32,670,824	602,937	20,516	33,294,277
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, net	<u>\$35,282,191</u>	<u>\$5,801,405</u>	<u>\$ (3,756)</u>	<u>\$41,079,840</u>

When assets are withdrawn from public transportation service, the grantee must remit to the grantor the grantor's pro-rata share of the fair market value as of the date the asset was withdrawn from service; should an asset be sold by the grantee, the grantee must remit to the grantor the grantor's pro-rata share of the proceeds less any amount specified as a service fee per the grant. However, if items of equipment have a current per-unit fair market value of less than \$5,000, the unit may be retained, sold, or otherwise disposed of with no further obligation to the grantor.

Included in the September 30, 2005 and 2006 construction in progress balance are costs associated with the Downtown Transfer Center and various service centers located throughout Genesee County.

At September 30, 2005 and 2006, there was no capitalized interest.

Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005

4. Leases

Operating leases:

MTA leases a storage facility with monthly payments totaling \$493. This lease expires at May 31, 2007.

MTA also has various leases on storage and/or terminal facilities on a month-to-month basis with payments ranging from \$700 to \$1,929.

The following is a schedule of future minimum rental payments under operating leases for the year subsequent to fiscal year ended September 30, 2006:

<u>Year Ending</u> <u>September 30,</u>	<u>Storage</u>
2007	\$ 3,944

Rent expense for the year ended September 30, 2006 and 2005, was as follows:

<u>Description</u>	<u>2006</u>	<u>2005</u>
Tires	\$ 27,768	\$ 17,631
Terminals/storage	<u>104,070</u>	<u>149,301</u>
	<u>\$131,838</u>	<u>\$166,932</u>

5. Lines of credit

The Authority has an unsecured line of credit agreement expiring September 30, 2007 with JPMorgan Chase Bank to borrow up to \$2,000,000. The interest on the line is charged at 80% of prime. (The prime interest rate at September 30, 2006 was 8.25%.) The balance due on the line of credit at September 30, 2006 and 2005 was \$2,000,000 for both years. The line of credit is payable solely from fare box revenues, contract revenues, and operating assistance revenues and not from taxes or special assessments.

Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005

6. State grants

As of September 30, 2006, the Authority has contracted with State of Michigan D.O.T. for various grant monies. All of the monies that the Authority is now eligible to receive have not yet been disbursed to them as the projects have not yet been completed. Below is a schedule of activity under these state grants including state grants or portions of state grants for which funds are still available to the Authority:

a. State capital grants

<u>Grantor</u>	<u>Contract or Project #</u>	<u>Grant Amount</u>	<u>Amount Earned This Audit Period</u>	<u>Total Amount Earned</u>	<u>Amount Deobligated</u>	<u>Amount Remaining</u>
State of Michigan D.O.T.	2002-0066 Z6	\$ 123,789	\$ 21,494	\$ 71,875	\$ -	\$ 51,914
State of Michigan D.O.T.	2002-0066 Z7	259,883	121,296	202,631	-	57,252
State of Michigan D.O.T.	2002-0066 Z11	449,735	12,880	449,735	-	-
State of Michigan D.O.T.	2002-0066 Z12	1,059,712	31,073	1,048,704	-	11,008
State of Michigan D.O.T.	2002-0066 Z15	491,839	354,325	468,874	-	22,965
State of Michigan D.O.T.	2002-0066 Z16	704,732	103,685	704,732	-	-
State of Michigan D.O.T.	2002-0066 Z19	906,960	75,891	849,886	-	57,074
State of Michigan D.O.T.	2002-0066-Z19	606,796	429,420	459,351	-	147,445
State of Michigan D.O.T.	2002-0066-Z28	42,396	8,347	19,774	-	22,622
State of Michigan D.O.T.	2002-0066-Z30	413,586	322,104	344,256	-	69,330
State of Michigan D.O.T.	2002-0066-Z29	128,000	-	-	-	128,000
State of Michigan D.O.T.	2002-0066-Z33	728,834	357,119	357,119	-	371,715
State of Michigan D.O.T.	2002-0066-Z34	430,300	214,086	214,086	-	216,214
State of Michigan D.O.T.	2002-0066-Z39	624,993	24,780	24,780	-	600,213
Total state capital grants		<u>6,971,555</u>	<u>2,076,500</u>	<u>5,215,803</u>	<u>-</u>	<u>1,755,752</u>

NOTE – Grants completed prior to October 1, 2005, were deleted from this schedule.

b. State operating grants (excluding operating assistance, Job Access, and Project Zero)

State of Michigan D.O.T.	2002-0066 Z21	10,848	-	10,841	-	7
State of Michigan D.O.T.	2005-0052	100,000	106	85,770	-	14,230
State of Michigan D.O.T.	2002-0066-Z27	269,362	269,362	269,362	-	-
Total state assistance		<u>\$7,351,765</u>	<u>\$2,345,968</u>	<u>\$5,581,776</u>	<u>\$ -0-</u>	<u>\$1,769,989</u>

Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005

7. Property taxes

For fiscal year 2003 through fiscal year 2006, .4 of a mill has been approved to be levied in each political jurisdiction within Genesee County. In August 2004, an additional County wide .4 mill levy was approved that became effective with the December 2004 and continues through the December 2008 tax levy. An additional .6 mill has been approved for levy for fiscal years 2001 - 2006 in the City of Flint over and above the property taxes levied county wide. Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the following December 1 and are payable without penalty through February 28. The political jurisdictions within Genesee County bill and collect their own property taxes and remit payments to the Mass Transportation Authority. Real property taxes delinquent at March 1 are remitted from the county. Delinquent personal property taxes are remitted from the political jurisdictions when collected. Property tax revenues are recognized in the fiscal year levied to the extent they are measurable and available.

8. Risk management

The Mass Transportation Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property, boiler and machinery, crime, inland marine, public officials liability, employee dishonesty, underground storage tank liability, excess workers compensation, employee life, accidental death and dismemberment, short term disability, medical, and dental coverages. The Authority participated in the Michigan Transit Pool for claims relating to liability, no-fault and excess comprehensive coverage through December 1, 2000. MTA is self-insured for general liability, worker's disability compensation within its \$250,000 retention, for all physical damage to its vehicles and up to \$50,000 for comprehensive coverage, and for employee vision care. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

During May 1998, a magistrate entered an open award providing the widow of an MTA bus operator with weekly workmen's compensation benefits of \$141.33 for a total of 500 weeks. The total award of \$70,665 was recognized as a liability and expense at the time it was awarded. The remaining liability of \$10,741 is to be paid as follows: 2007 - \$7,349; and 2008 - \$3,392.

MTA, pursuant to statutory authority, contracted with Cambridge Integrated Services Group, Inc. for third party administration of disputed worker's disability compensation claims. ASU Risk Management Services, LTD., serves as the claims facility for no fault and tort claims made for losses alleged to have occurred in connection with the operation of MTA - owned vehicles and facilities.

The Michigan Transit Pool risk pool program operates as a claims - servicing pool for amounts up to member retention limits, and operates as a common risk - sharing management program for losses in excess of member retention amounts for claim years through December 2000. Premiums have been paid annually to the Pool to be used to pay claims up to the MTA's retention limit. Pool members share proportionately in losses that exceed member retentions. The Pool was able to purchase commercial insurance on behalf of its members at a lower cost than was available on an individual basis.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005**

8. Risk management – (continued)

The Michigan Transit Pool estimated the liability for auto and general liability claims that had been incurred through the end of December 31, 2000, including both those claims that have been reported as well as those that have not yet been reported to the Pool. The Pool will continue to estimate and administer the claims for years previous to December 2000. All funds on deposit with the Pool will continue to be held by the Pool until all claims for a specific year are settled. The Pool's fiscal year is December 1 - November 30.

Starting December 1, 2000, MTA hired the ASU Group to administer the liability claims, previously administered through the Michigan Transit Pool. An Internal Service Fund was established to account for this activity. An actuarial determination was completed to determine an estimate of the liability for incurred but not reported (IBNR) claims at September 30, 2004. The claim estimates are recorded as claims payable in the Self Insurance Internal Service Fund. The estimated liability as well as the total estimated costs (based on an actuarial calculation and claims presented) of claims for the past fiscal year for the Authority are as follows:

	<u>Fiscal Years Ended</u>	
	<u>2006</u>	<u>2005</u>
Estimated liability, beginning of year	\$ 629,788	\$ 808,653
Estimated claims incurred, including changes in estimates	411,267	444,777
Claims payments	<u>(236,065)</u>	<u>(623,642)</u>
Estimated liability, end of year	<u>\$ 804,990</u>	<u>\$ 629,788</u>

9. Contingencies/commitments

MTA participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the years ended September 30, 2006 and 2005 have been conducted and have been reported in this annual report. However, the compliance audit reports have not yet been accepted by the grantor. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although MTA expects such amounts, if any, to be immaterial.

10. Construction contracts

MTA has construction in progress at the close of the fiscal year. MTA has two construction contracts related to the ongoing construction projects. The MTA Downtown Transit Center Renovations total contract is \$6,073,864, with \$2,973,028 completed to date and a remaining balance of \$3,100,836. The Fenton service center total contract is \$1,659,511, with \$1,072,612 completed to date and a remaining balance of \$586,899.

11. Post employment benefits

In compliance with current labor agreements and board resolution, the Authority provides medical coverage for retired hourly and salaried personnel age 65 and over. The supplement is not to exceed \$150 per month for retirees with 20 years of service or \$100 per month for retirees with 10 years of service. The supplemental amounts are only paid if a billing is presented by the retiree to MTA. MTA finances the plan on a pay-as-you-go basis. For fiscal years ending September 30, 2006 and 2005, there were 11 eligible retirees with a recorded expense of \$16,128 and \$9,220 for each year, respectively.

Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005

12. Retirement plan - money purchase 401(a) pension plan

The Management Employees Retirement Plan is a single employer money purchase 401(a) pension plan which covers all management employees. The plan is accounted for in a pension trust fund and is administered by Mass Transportation Authority. There are no service or age requirements and employees are 100% vested after 5 years of service (0% vested prior to 5 years of service). (Employees are 100% vested in the employee rollover from the terminated defined benefit plan.) The plan is fully funded as it is MTA's policy to fund pension costs as it accrues.

Employer contributions are to be determined by the employer and may be changed from time to time. The employer is to advise plan participants in writing of the percentage and of any change in the percentage. Employee contributions are mandatory to receive the employer contribution. Employees are required to contribute 4% to participate in the employer match of 8%.

The plan has the right to recover overpayments made by the plan and to satisfy any claim arising from embezzlement or fraud committed by a participating, former participant, beneficiary, or other person who has a claim to an accumulated balance or any other benefit from the plan.

Employer and employee contributions were made as follows:

	<u>2006</u>	<u>2005</u>
Employer	\$172,243	\$186,031
Employee	<u>97,564</u>	<u>92,921</u>
Total	<u>\$269,807</u>	<u>\$278,952</u>

13. Retirement plan - Hourly Employees Defined Contribution Pension Plan

The Hourly Employees Retirement Plan is a single employer defined contribution plan which covers all full time hourly employees, who are members of AFSCME Michigan Council 25 Local 3437. The plan is accounted for in a pension trust fund and is administered by Mass Transportation Authority. There are no service or age requirements and employees are 100% vested after 5 years of service (0% vested prior to 5 years of service). The plan is fully funded as it is MTA's policy to fund pension costs as it accrues. Employees are required to contribute 4% to participate in the employer match of 4%.

Employer and employee contributions were made as follows:

	<u>2006</u>	<u>2005</u>
Employer	\$171,659	\$147,173
Employee	<u>171,659</u>	<u>147,197</u>
Total	<u>\$343,318</u>	<u>\$294,370</u>

Mass Transportation Authority
Notes to Financial Statements
September 30, 2006 and 2005

14. Compensated absences

Vacation leave is earned in varying amounts depending on the number of years of service of an employee. Vacation leave is credited to hourly employees annually on the anniversary of their seniority date; for management employees, vacation credit is accrued monthly.

Earned vacation credit is payable at 100 percent to employees when they terminate employment up to a maximum of 320 hours.

Vacation earned during the year is recorded as current fringe benefit expenses. At year end, each employee's accumulated leave is computed by applying his current (year end) rate of pay times total accumulated hours. The composite dollar total for all employees is entered in the enterprise fund as an accrued liability and fringe benefit expense.

The Authority does not grant sick leave time to its employees.

15. Deferred compensation

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to key officials and employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. During a previous year, the law was changed to allow trusts to be created for the plan assets, thereby, insulating the assets from the unit of government's general creditors. The Authority's plan administrator created the trust and placed the assets of the plan within the trust. As a result, the plan assets have been removed from the Enterprise Fund to reflect that the Authority no longer has any fiduciary or administrative responsibility for the plan.

16. Upcoming reporting changes

The Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pension*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2009. Management is currently assessing the impact of this new accounting standard on the Authority's financial statement for future reporting periods.

Supplementary Information

Mass Transportation Authority
Operating Revenues
For the Years Ended September 30, 2006 and 2005

	<u>2006</u>		<u>2005</u>	
		<u>Related Expenses</u>		<u>Related Expenses</u>
Operating revenues:				
Farebox:				
Fixed route	\$ 1,841,654		\$ 1,690,077	
Demand response	698,039		668,189	
Regional transportation	<u>140,036</u>		<u>144,134</u>	
	2,679,729		2,502,400	
Advertising	71,049	\$ -	60,349	\$ -
Rental	155,248	36,889	169,453	47,074
Parking lot and meters, lockers chairs, and phones	15,164	-	18,685	-
Miscellaneous	<u>23,157</u>	-	<u>37,982</u>	-
Total operating revenues:	<u>\$ 2,944,347</u>	<u>\$ 36,889</u>	<u>\$ 2,788,869</u>	<u>\$ 47,074</u>

**Mass Transportation Authority
Operating Expenses
For the Year Ended September 30, 2006
With Comparative Totals For the Year Ended September 30, 2005**

				Total System	
	Operations	Maintenance	General Administration	2006	2005
Labor:					
Operator's salaries and wages	\$ 6,509,283	\$ -	\$ -	\$ 6,509,283	\$ 6,397,494
Other salaries and wages	632,260	1,858,525	1,199,063	3,689,848	3,562,295
Dispatcher salaries and wages	160,829	-	-	160,829	143,966
Fringe benefits	3,882,888	988,234	637,579	5,508,701	5,901,324
Services:					
Advertising fees	-	-	81,015	81,015	57,783
Other services	-	125,273	1,018,635	1,143,908	1,234,370
Materials and supplies consumed:					
Fuel and lubricants	2,361,628	17,322	-	2,378,950	1,802,581
Other materials and supplies	22,100	1,702,718	104,696	1,829,514	1,913,230
Utilities	-	-	707,100	707,100	604,666
Casualty and liability costs:					
Liability insurance	612,563	-	-	612,563	563,611
Other insurance	-	-	79,942	79,942	140,481
Taxes and fees	-	-	1,627	1,627	257
Miscellaneous expense:					
Travel, meetings, and training	-	-	16,180	16,180	34,071
Association dues and subscriptions	-	-	49,971	49,971	36,241
Lobbying	-	-	47,299	47,299	50,521
Other miscellaneous expenses	-	-	144,298	144,298	419,820
Interest expense:					
Interest on short-term debt	-	-	60,286	60,286	85,641
Interest on state advances	-	-	41,052	41,052	21,627
Operating leases and rentals	-	-	104,070	104,070	149,301
Bad debt expense	-	-	185,862	185,862	-
Depreciation and amortization expense	-	-	5,169,180	5,169,180	5,633,353
Total expenses	\$ 14,181,551	\$ 4,692,072	\$ 9,647,855	\$ 28,521,478	\$ 28,752,633

-

Mass Transportation Authority
Enterprise Fund
Nonoperating Revenues
For the Years Ended September 30, 2006 and 2005

	2006	2005
Property tax revenue	\$ 9,357,007	\$ 8,878,619
State of Michigan operating grants:		
Urban operating assistance	5,109,089	5,109,089
Non-urban operating assistance	375,289	304,808
Project Zero	-	380,628
Job Access	1,190,946	1,526,738
Preventative maintenance grants	360,000	
Capital grants used for operations	116,890	259,764
Amtrack marketing	106	85,664
Federal security/emergency management	-	10,841
Specialized services	269,362	259,506
Prior year operating assistance settlement (2000 - 2004)	(169,176)	-
Total state operating grants	7,252,506	7,937,038
Federal operating grants:		
Job Access	662,826	1,526,738
Section 5311 operating assistance	162,527	81,167
Preventative maintenance grants	3,211,170	2,400,000
Capital grants used for operations	1,008,837	1,148,311
FTA Section 8 - Ridership study	20,400	53,137
Federal security/emergency management	76,782	228,171
Prior year capital grant repayments	(240,000)	-
Total federal operating grants	4,902,542	5,437,524
Loss on sale of capital asset	(3,756)	(4,011)
Interest income	35,997	18,958
Total nonoperating revenues	\$ 21,544,296	\$ 22,268,128

Mass Transportation Authority
Enterprise Fund
Schedule of Expenses by Contract and General Operation
For the Year Ended September 30, 2006
With Comparative Totals For the Year Ended September 30, 2005

	Non-urban	Urban	Job Access
Labor	\$ 347,892	\$ 9,337,500	\$ 674,568
Fringe benefits	184,985	4,965,029	358,687
Other services	41,134	1,104,028	79,758
Materials and supplies consumed	141,322	3,523,754	274,026
Utilities	23,745	637,314	46,041
Casualty and liability costs	21,530	629,228	41,747
Taxes and fees	55	1,466	106
Miscellaneous expense	8,655	232,310	16,783
Interest expense	3,403	91,337	6,598
Leases and rentals	3,495	93,799	6,776
Bad debt expense	6,241	167,519	12,102
Depreciation and amortization	173,584	4,659,019	336,580
Total expenses	<u>\$ 956,041</u>	<u>\$ 25,442,303</u>	<u>\$ 1,853,772</u>

Schedule IV

Total Operations	Specialized Services	Total System	
		2006	2005
\$ 10,359,960	\$ -	\$ 10,359,960	\$ 10,103,755
5,508,701	-	5,508,701	5,901,324
1,224,920	-	1,224,920	1,292,153
3,939,102	269,362	4,208,464	3,715,811
707,100	-	707,100	604,666
692,505	-	692,505	704,092
1,627	-	1,627	257
257,748	-	257,748	540,653
101,338	-	101,338	107,268
104,070	-	104,070	149,301
185,862	-	185,862	-
5,169,183	-	5,169,183	5,633,353
\$ 28,252,116	\$ 269,362	\$ 28,521,478	\$ 28,752,633

**Mass Transportation Authority
Maximum Reimbursement Computation c
State Bus Operating Assistance
For the Year Ended September 30, 2006**

State operating assistance - Urban

Operations expenses:

Labor	\$ 10,359,960
Fringe benefits	5,508,701
Other services	1,224,923
Materials and supplies	4,208,464
Utilities	707,100
Casualty and liability costs	692,505
Taxes	1,627
Miscellaneous expense	257,748
Interest expense	101,338
Leases and rentals	104,070
Bad debt expense	185,862
Depreciation and amortization	5,169,180

Total operations expenses 28,521,478

Less ineligible expenses

Non-urban operating assistance	956,041
Job Access	1,853,772
Specialized Services	269,362
Federal security/emergency management	76,782
Preventative maintenance grants	3,571,170
Capital grants used for operations	1,125,727
FTA Section 8-Ridership Study	20,400
Related expenses	36,889
Depreciation and amortization	5,050,539
Miscellaneous	47,299
Bad debt expense	185,862
State interest expense	41,052

Total ineligible expenses 13,234,895

Net eligible expenses - Urban \$ 15,286,583

State operating assistance - Urban

Greater of:

Statutory allowed (33.1414% of eligible expenses)	5,066,188	
Statutory floor - 1997 resources available per MDOT	5,109,089	
Grant award	5,109,089	5,109,089

State programmed receipts - Urban 7,149,107

Project over payment - Urban \$ (2,040,018)

(continued)

**Mass Transportation Authority
Maximum Reimbursement Computation of
State Bus Operating Assistance (continued)
For the Year Ended September 30, 2006**

State operating assistance - Non-urban

Non-urban eligible operating expense:	<u>\$ 956,041</u>	
	<u>Non-urban (State)</u>	<u>Section 5311 (Federal)</u>
Grant limits:		
Non-urban - 39.2545% of eligible expenses	\$ 375,288	\$ -
Non-urban - 17.0% of eligible expenses	-	162,527
Net eligible expense	375,288	162,527
Grant award	375,289	162,527
Project under payment - Non-urban	<u>\$ (1)</u>	<u>\$ - 0 -</u>

**Mass Transportation Authority
Detail of Ineligible Items - State
For the Year Ended September 30, 2006**

DEPRECIATION AND AMORTIZATION

Depreciation expense of public operations is ineligible according to UMTA C 9050.1, Page A-4 for all capital assets purchased from federal, state, or local funds. Amortization expense of assets purchased through capital leases which are being repaid from state and federal funds has also been included as an ineligible expense. For capital assets purchased from Authority funds, depreciation is an eligible expense for state operating assistance purposes and amounted to \$118,641

MISCELLANEOUS

The following expenditures are not eligible for operating assistance:

<u>Description</u>	<u>Amount</u>
Dues	\$ 5,299
Lobbying	<u>42,000</u>
Total miscellaneous	<u><u>\$ 47,299</u></u>

The Authority paid \$48,228 in connection with annual dues to the American Public Transit Association and Michigan Public Transit Association. It has been determined that these organizations devote approximately 14.0 and 6.8 percent, respectively, of their activities to influencing legislation, which is not eligible for reimbursement according to OMB Circular A-87. The ineligible portion of dues paid to Transit Association amounted to \$5,299 for the year.

RELATED EXPENSES - MISCELLANEOUS REVENUE

In addition, costs associated with miscellaneous revenue are ineligible expenses. See Schedule I for these costs.

BAD DEBT EXPENSES

Bad debt expenses of \$185,862 are ineligible expenses. This amount includes grant receivables written-off during the year for transportation services contracted by an agency for which they subsequently did not receive their grant funding and therefore, could not pay for the service.

INTEREST EXPENSE

Non-state interest expense on short-term debt obligations after deducting all interest income is eligible. (Interest expense paid to the State of Michigan of \$41,052 is totally ineligible.)

**Mass Transportation Authority
Vehicle Miles
For The Year Ended September 30, 2006
(Unaudited)**

	Public Transportation <u>Mileage</u>	Regional <u>Mileage</u>	Specialized Services Section 5311 <u>Mileage</u>
<u>Fixed Route</u>			
First Quarter	534,292	198,989	-
Second Quarter	539,092	203,996	-
Third Quarter	534,376	203,031	-
Fourth Quarter	508,142	197,626	-
	<hr/>	<hr/>	<hr/>
Total Fixed Route	2,115,902	803,642	-
	<hr/>	<hr/>	<hr/>
<u>Demand Response</u>			
First Quarter	1,587,844	-	102,889
Second Quarter	1,538,997	-	117,914
Third Quarter	1,184,724	-	121,913
Fourth Quarter	945,785	-	122,535
	<hr/>	<hr/>	<hr/>
Total Demand Response	5,257,350	-	465,251
	<hr/>	<hr/>	<hr/>
Total Operation	7,373,252	803,642	465,251
	<hr/>	<hr/>	<hr/>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Mass Transportation Authority

**Federal Awards
Supplemental Information
September 30, 2006**

Mass Transportation Authority

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Independent Auditor's Report

Board of Directors
Mass Transportation Authority

We have audited the financial statements that collectively comprise Mass Transportation Authority's basic financial statements for the year ended September 30, 2006, and have issued our report thereon dated January 29, 2007. Those basic financial statements are the responsibility of the management of Mass Transportation Authority. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mass Transportation Authority's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

January 29, 2007

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing
Standards*

Board of Directors
Mass Transportation Authority

We have audited the financial statements which collectively comprise Mass Transportation Authority's basic financial statements as of and for the year ended September 30, 2006 and have issued our report thereon dated January 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mass Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mass Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Mass Transportation Authority

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

January 29, 2007

Report on Compliance with Requirements Applicable to Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Mass Transportation Authority

Compliance

We have audited the compliance of Mass Transportation Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The major federal programs of Mass Transportation Authority are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Mass Transportation Authority's management. Our responsibility is to express an opinion on Mass Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mass Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mass Transportation Authority's compliance with those requirements.

In our opinion, Mass Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of Mass Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mass Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

January 29, 2007

Mass Transportation Authority

	<u>CFDA Number</u>	<u>Project Number</u>	<u>Award Amount</u>
US Department of Transportation -			
Direct Programs:			
Federal Transit Cluster:			
Federal Transit Capital Assistance Grants	20.500*	MI-03-0174	\$ 495,157
Federal Transit Capital Assistance Grants	20.500*	MI-03-0187	1,039,530
Federal Transit Capital Assistance Grants	20.500*	MI-03-0197	1,967,357
Federal Transit Capital Assistance Grants	20.500*	MI-03-0211	2,427,184
Federal Transit Capital Assistance Grants	20.500*	MI-03-0222	971,779
Federal Transit Capital Assistance Grants	20.500*	MI-03-0223	2,915,334
Federal Transit Formula Grants	20.507*	MI-90-X384	1,798,941
Federal Transit Formula Grants	20.507*	MI-90-X405	4,238,849
Federal Transit Formula Grants	20.507*	MI-90-X417	2,818,928
Federal Transit Formula Grants	20.507*	MI-90-X432	4,019,760
Federal Transit Formula Grants	20.507*	MI-90-X466	3,605,301
Federal Transit Formula Grants	20.507*	MI-90-X475	1,654,346
Federal Transit Formula Grants	20.507*	MI-90-X481	512,000
Federal Transit Formula Grants	20.507*	MI-90-X486	1,755,624
Federal Transit Formula Grants	20.507*	MI-90-X503	3,753,553
Federal Transit Formula Grants	20.507*	MI-90-X524	4,024,230
Federal Transit Formula Grants	20.507*	MI-26-7005	1,659,260
Total Federal Transit Cluster			39,657,133
Job Access - Reverse Commute	20.516*	MI-37-X019	1,982,362
Job Access - Reverse Commute	20.516*	MI-37-X021	207,202
Total Job Access - Reverse Commute			2,189,564
Total Direct Assistance			41,846,697
Passed-through State of Michigan			
Department of Transportation and Genesee			
County Metropolitan Planning Commission:			
Formula grants for other than urbanized areas	20.509	MI-90-X035	43,392
Total U.S. Department of Transportation			\$ 41,890,089

*Denotes major program

**Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006**

Revenue Recognized During This <u>Audit Period</u>	Federal Expenditures During This <u>Audit Period</u>	<u>Deobligated</u>	Cumulative Federal <u>Expenditures</u>	Amount <u>Remaining</u>
\$ 85,973	\$ 85,973	\$ -	\$ 287,498	\$ 207,659
485,186	485,186	-	810,526	229,004
1,417,298	1,417,298	-	1,875,493	91,864
1,717,679	1,717,679	-	1,837,403	589,781
47,984	47,984	-	47,984	923,795
1,428,477	1,428,477	-	1,428,477	1,486,857
51,518	51,518	-	1,798,941	-
364,293	364,293	-	4,194,819	44,030
414,737	414,737	-	2,818,928	-
695,484	695,484	-	3,791,477	228,283
601,506	601,506	-	3,156,469	448,832
1,288,417	1,288,417	-	1,377,023	277,323
-	-	-	-	512,000
1,236,791	1,236,791	-	1,236,791	518,833
1,023,104	1,023,104	-	1,023,104	2,730,449
1,200,000	1,200,000	-	1,200,000	2,824,230
76,781	76,781	-	304,808	1,354,452
12,135,228	12,135,228	-	27,189,741	12,467,392
455,624	455,624	-	1,982,362	-
207,202	207,202	-	207,202	-
662,826	662,826	-	2,189,564	-
12,798,054	12,798,054	-	29,379,305	12,467,392
-	-	28	43,364	-
\$ 12,798,054	\$ 12,798,054	\$ 28	\$ 29,422,669	\$ 12,467,392

Mass Transportation Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2006

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Mass Transportation Authority and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Mass Transportation Authority

Schedule of Findings and Questioned Costs Year Ended September 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
20.500 & 20.507	Federal Transit Cluster
20.516	Job Access - Reverse Commute

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk auditee? ☒ Yes ☐ No

Mass Transportation Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2006

Section II - Financial Statement Audit Findings

Reference Number	Findings
	None

Section III - Federal Program Audit Findings

Reference Number	Findings
	None



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January 26, 2007

Board of Directors
Mass Transportation Authority
1401 South Dort Highway
Flint, Michigan 48503

Dear Board:

We recently completed our audit of the basic financial statements of Mass Transportation Authority (organization) for the year ended September 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

BANK RECONCILIATIONS

Bank reconciliations are prepared by the Controller on a monthly basis. To improve internal control, the bank reconciliations should be periodically reviewed by the Assistant General Manager of Administration. We recommend that the reviewer sign and date the bank reconciliations as proof of review. Subsequent to year-end a procedure was put in place whereby the monthly bank reconciliations will be reviewed and the Assistant General Manager of Administration will sign off on them to indicate this review.

CHECK APPROVALS

It is our understanding that the Assistant General Manager of Administration reviews and approves all check runs prior to issuance of checks. However, evidence of this review is not kept of file. We recommend that approval be retained for each check run. As part of this review, we recommend that the check sequence be verified and any gaps documented.

CASH RECEIPT LOG

It is our understanding that the receptionist opens all mail and forwards checks to one of the accountants. We recommend that the receptionist maintain a log of all checks received and forward a copy of this log to the Controller for use in reviewing the deposits received from the accountant.

ACH (electronic transfers) AND CREDIT CARD POLICY

In accordance with Michigan State Law an ACH and credit card policy are to be in place by the organization. Subsequent to year end an ACH and credit card policy was put in place.

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NEW AUDITING STANDARDS

New auditing rules this year will result in some changes in the communications you receive from us related to our audit work. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we will likely be telling you about more items than we may have in the past and we will communicate them in writing in all cases.

We will be informing you about any deficiencies we observe in your accounting procedures or internal controls that we believe are significant. The new threshold for "significant" is a low one – a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements.

We will also be required to communicate these matters to more people. You may be used to receiving our comments and observations as part of a meeting or discussion at the end of our work, or we may have provided comments on accounting matters directly to the General Manager or Assistant General Manager of Administration. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including financial reporting and disclosure, in addition to our communications with management.

Finally, while it will be up to you to determine what, if any, actions you take to correct any deficiencies we bring to your attention, we will also be obligated to continue to reference uncorrected deficiencies in our future audits.

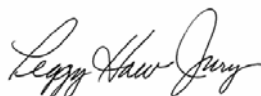
As you know, an audit of financial statements is significantly different in scope than an audit of internal controls and our audit work cannot be relied on to identify or detect all deficiencies in your internal controls or accounting procedures. These new auditing rules are intended to enhance our communications to you and will not change the nature and extent of our work in this area.

Lastly, in addition to the new rules discussed above, there are more new auditing rules that will be effective for audits conducted in 2008. We will be providing you with more information about the impact of these rules in the coming months. If you would like to discuss any of these matters further, please do not hesitate to contact us.

We would like to thank Jerry Ragsdale and Susan Auge, as well as all of the Mass Transportation Authority personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Peggy Haw Jury, CPA, CFE

